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**FISCAL IMPACT STATEMENT**

**LS 6962**

**BILL NUMBER:** SB 517

**NOTE PREPARED:** Feb 15, 2013

**BILL AMENDED:** Feb 14, 2013

**SUBJECT:** Local Government Finance.

**FIRST AUTHOR:** Sen. Miller Pete

**FIRST SPONSOR:**

**BILL STATUS:** CR Adopted - 1st House

**FUNDS AFFECTED:** ☒ **GENERAL**  
**DEDICATED**  
**FEDERAL**

**IMPACT:** State & Local

**Summary of Legislation:** (Amended) *Pilot Project:* This bill authorizes the Department of Local Government Finance (DLGF) to establish a three year pilot program concerning nonbinding review of budgets, property tax rates, and property tax levies. It provides that for a county to be eligible for designation as a pilot county, the county fiscal body must adopt a resolution and submit an application to the DLGF. The bill allows the DLGF to designate not more than three counties as pilot counties.

The bill specifies that the following apply in 2014 and thereafter in a pilot county:

- (1) Each taxing unit in the pilot county must file with the DLGF the taxing unit's proposed budgets, property tax rates, and property tax levies.
- (2) When formulating the taxing unit's estimated budget, property tax rate, and property tax levy, each taxing unit shall consider estimated consequences of the circuit breaker property tax credits.
- (3) The DLGF shall prepare an analysis of the proposed budgets, property tax rates, and property tax levies submitted by taxing units in the pilot county and provide the analysis to the county fiscal body and to the fiscal body of each taxing unit in the pilot county.
- (4) Upon request by the county fiscal body, representatives of the DLGF shall appear before the county fiscal body to review the analysis.
- (5) The county fiscal body shall review the proposed budgets, property tax rates, and property tax levies of each taxing unit in the pilot county and the total tax rate of each taxing district in the county, and shall issue a nonbinding recommendation to each taxing unit.

*Debt Service Fund:* For all taxing units, this bill provides that the maximum amount allowed for an operating balance for a debt service fund is 25% of the budget estimate for the fund.

*Circuit Breaker Allocation:* This bill specifies, for purposes of protecting debt service funds under the property tax circuit breaker credit, that the political subdivision may determine the allocation of property tax reductions from the circuit breaker credit to funds receiving only unprotected taxes using only the funds of the political subdivision that incurred the debt and not other political subdivisions. It specifies that the allocation is to be made using only the taxing districts for which there was an impact from granting the circuit breaker credit. It also specifies that the revenue for a fund receiving protected taxes is also reduced if the revenue reallocation from funds receiving only unprotected taxes is insufficient to offset the amount of the circuit breaker.

The bill permits a political subdivision to transfer money to meet debt service obligations from any other available source if a fund receiving protected taxes also has to be reduced. It limits the amount of the transfer to the shortfall, and requires that the transfer must be specifically identified as a debt service obligation transfer for each affected fund. It also allows a political subdivision to transfer money received as miscellaneous revenue from one fund to one or more other funds of the political subdivision if certain conditions are met.

*School General Fund Transfers:* The bill permits a school corporation to make a transfer from its general fund to its transportation fund or school bus replacement fund if more than 75% of its transportation fund levy or bus replacement fund levy is lost due to:

- (1) the application of the circuit breaker credit; plus
- (2) the tax allocations made to protect taxes that are protected from the circuit breaker credit.

The bill limits the general fund transfer to 50% of the revenue lost by the impacted fund.

*Debt Restructuring:* This bill specifies that an eligible school corporation may adopt a resolution before January 1, 2014, to use certain debt restructuring statutes.

*Distressed Schools:* The bill provides that in the case of a school corporation designated after June 30, 2013, as Distressed by the Distressed Unit Appeal Board (DUAB) upon submission of a petition by the school corporation requesting the designation, the board shall appoint an emergency manager for the school corporation. (Under current law, the DUAB is required to appoint an emergency manager for each political subdivision, other than a school corporation, that is designated as distressed.) The bill allows the DUAB to approve a petition submitted jointly by the governing body and the superintendent of a school corporation requesting authority to transfer before July 1, 2015, excess funds in the school corporation's debt service fund to the school corporation's transportation fund.

**Effective Date:** (Amended) Upon Passage; January 1, 2013 (retroactive); July 1, 2013.

**Explanation of State Expenditures:** *Pilot Project:* Under this provision, the DLGF would develop the framework for continuation of a more thorough review in all counties without the DLGF's direct involvement. The DLGF would initially have to commit additional resources to the counties that it chooses to be a part of the pilot project and for the development of the framework in general. The additional cost to the DLGF is currently unknown.

**Explanation of State Revenues:**

**Explanation of Local Expenditures:** (Revised) *School General Fund Transfers:* Based on 2012 circuit breaker losses, there are five school corporations that would have had circuit breaker losses exceeding 75% of their transportation and bus replacement fund levies when circuit breaker losses are directed first to unprotected funds.

Under this provision, these corporations would be permitted to transfer funds from the general fund to these two funds in an amount up to 50% of the loss. The total loss in the transportation and bus replacement funds for all five school corporations is \$7.1 M. The maximum transfer would be about \$3.6 M per year. The following table details the circuit breaker losses and potential transfers for each school corporation and fund.

Corp	School Corporation	Fund	Levy	Circuit Breaker	% of Levy Lost	Potential Transfer
3135	Mt. Vernon Community	Transportation	1,219,259	1,219,259	100.0%	609,630
5275	Anderson Community	Transportation	3,079,705	3,079,705	100.0%	1,539,853
5275	Anderson Community	Bus Replacement	35,433	35,433	100.0%	17,717
5380	Beech Grove City Schools	Transportation	786,772	786,772	100.0%	393,386
5300	M.S.D. Decatur Township	Transportation	2,359,536	1,924,255	81.6%	962,128
5300	M.S.D. Decatur Township	Bus Replacement	79,054	64,470	81.6%	32,235
6340	Cannelton City Schools	Bus Replacement	9,346	7,194	77.0%	3,597
			<b>7,569,105</b>	<b>7,117,088</b>	<b>94.0%</b>	<b>3,558,544</b>

**Explanation of Local Revenues:** *Pilot Project:* A county fiscal body may apply to the DLGF to become one of three pilot counties under this provision. A more thorough review of local budgets by the county fiscal body could create better understanding of the interrelationship between the taxing units regarding property tax circuit breakers. Since the review is nonbinding, just as it is under current law, any change to a taxing unit's budget, levy, and tax rate would up to the officers of each taxing unit.

*Debt Service Fund - Summary:* In CY 2012, civil taxing units and school corporations had 1,232 debt service funds with a total budget appropriation of \$1.95 B (including additional appropriations). Budgeted operating balances in the funds totaled \$695 M or 36% of the total budgets, on average.

Of the 1,232 total debt funds, 450 had an operating balance of 25% or less and 782 funds exceeded 25%. Under this provision, there would be a one time balance reduction of about \$303 M if all funds were held to a 25% balance. Balances would be reduced by cutting property tax levies for one year, resulting in tax rate decreases. About \$256 M of the total levy reduction would be in funds that are not exempt from circuit breakers. So, those levy reductions would also reduce exposure to the tax caps for one year.

*Circuit Breaker Allocation - Summary:* Retroactive to CY 2013, this bill clarifies current law regarding the allocation of circuit breaker losses between a taxing unit's funds. Total unit revenues are not affected.

*Circuit Breaker Allocation - Background:* Currently, certain levies are exempt from the calculation of property tax limits under the circuit breaker law. These include levies that are approved in a referendum and levies in Lake and St. Joseph Counties for debt incurred before July 1, 2008. Under current law, when a taxing unit distributes tax receipts among its funds, the total amount collected from exempted funds must be allocated to those funds without any adjustment for circuit breaker credits.

Beginning in CY 2013 under HEA 1072 (2012) both the exempt levies plus any debt service levies that are not exempt are deemed "protected taxes". The total amount of protected taxes collected are to be allocated to the

appropriate fund without any adjustment for circuit breaker credits. The tax loss created by the circuit breaker credits is to be allocated among the unprotected funds.

Previous to HEA 1072 (2012), if the amount available in a debt service fund was insufficient to pay obligations because of circuit breaker losses, the unit was required to transfer money from its other funds to debt service. The changes in HEA 1072 (2012) were meant to eliminate the need to make the transfers.

However, an analysis of 2012 tax levies and circuit breaker losses revealed that there are 6 taxing units that either (a) had only a nonexempt debt levy with no other levies; or (b) had nondebt levies that were insufficient to absorb all of the circuit breaker loss. The statute that will take effect in 2013 is silent on how to handle these situations.

This bill clarifies that in the event that a taxing unit has no unprotected funds or if the unprotected funds are entirely reduced by circuit breaker losses, then the unit's protected funds must be reduced. In the event that protected funds are reduced, the bill permits the taxing unit to transfer money from any other fund to the protected funds to cover the loss.

(Revised) *Debt Restructuring*: Under current law, school corporations must adopt a resolution by June 30, 2013 to be permitted to refinance debt under the debt restructuring statute. The DUAB must also approve the school corporation's refinancing plan. Under this bill, the deadline to adopt the resolution would be extended to December 31, 2013.

Background: Under current law, certain school corporations are permitted to transfer certain amounts from their debt service levies to their capital projects, transportation, and school bus replacement funds. Eligible school corporations include corporations that have circuit breaker losses from all funds that are at least 20% of the levies in the nondebt funds (i.e., capital projects, transportation, school bus replacement, and racial balance). Eligible schools may currently refinance up to 50% of their existing bonds for a period not exceeding 10 years past the original term. The difference between the old debt service levy and the levy for the refinanced bond (or 0 for a retired bond) is the incremental levy amount and may be transferred, up to the amount of the circuit breaker losses, to the other funds.

**State Agencies Affected**: Department of Local Government Finance (DLGF)

**Local Agencies Affected**: County fiscal bodies; Local civil taxing units and school corporations.

**Information Sources**: Local Government Database.

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